EFFIS Consulting

Effective Information & Strategy

Perspectives 1

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A 20/20 View of the Craft Beer Market

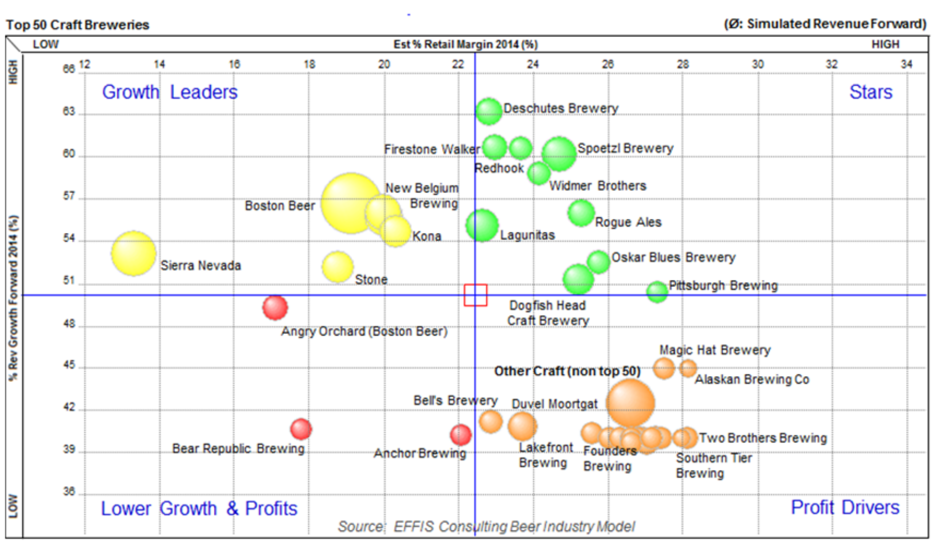
Transformative Industry Growth

Using our U.S. Retail Beer Model we have developed a “20/20” simulation scenario which projects by the year 2020 that the Craft beer segment will achieve $10.3 billion in U.S. off-premise sales. This represents a 50% rate of growth from 2014’s $6.4 billion off-premise sales. In this scenario, by 2020 Craft also reaches a 20% dollar share of the total U.S. beer market.

To simulate the 2020 market, we have applied forward growth and decline estimates from our 2014 model base levels across all beer types and off-premise sales channels. These assumptions roll up to create a new 2020 industry view.

2020 - Craft at 20% Industry Dollar Share (Top 50 Producer Focus)

This matrix shows Producer growth rates by 2020, versus the average profit margin earned by off-premise retailers on each Producer’s products in 2020.



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Insights from the 2020 Craft Matrix View: Supplier Growth vs. Retailer Profitability

Craft producer names appear as one of 51 bubbles in the matrix. Each Producer bubble lies within a quadrant that is labeled with the summary performance characteristics unique to each quadrant.

Producers are measured on Revenue Growth Forward % (vertical axis) from 2014 through 2019; the horizontal axis indicates the average Estimated Retail % Margin earned by all retailers across each Producer's products.

Those Producers whose bubbles lie in the upper half of the matrix have grown revenues above the Craft industry's cumulative growth of 50.3% between 2015-2019. Producer bubbles in the bottom half of the matrix have achieved less than the average cumulative growth rate of 50.3%.

Note the large Other Craft non-top 50 bubble in the Profit Drivers (orange) quadrant. This single bubble serves to aggregate the growth and retail profitability of the 650 (non-top 50) smaller breweries into a single entity.

Key Data Points from the Matrix

- Top 50 Craft Producers control $9.2 billion (89%) of the 2020 $10.3 billion Craft retail market. The Top 10 Craft Producers enjoy a 53% dollar share.
- Yellow quadrant Producers (e.g. Boston Beer) are Growth Leaders and enjoy broad multi-channel distribution. Yet, these yellow quadrant suppliers, despite being 42% of industry revenues by 2020, provide lower profit margins to retailers than the bulk of smaller Craft breweries.
- The 650 producers found in "Other Craft Non-Top 50" orange bubble breweries create high retailer profits and aggregately achieve over $1 billion in retail sales by 2020. Their growth is hindered by generally smaller (individual brewery) size and the related challenges of building broad multi-channel distribution. Our off-premise model has a total of 700 Craft producers identified by name.
- Stars, the mid-sized breweries (green quadrant in the matrix) represent both high revenue growth and profits, and may be prime acquisition targets. Yet, they represent only 22% of 2020 revenues.

The 2020 Simulation - Further Exploration

Our industry model provides users a model both a global (big picture) and a local (e.g. State, Region, Brand, Channel, Beer Type, SKU level) view of the industry.

Forward industry simulations may be developed from our base 2014 Industry model and may be based on sales channels, pricing, growth/decline estimates, and beer types. Examples of insights and data points from the model include:

- Craft production sold off-premise in 2020 is just shy of 800MM gallons
- Ales are 62% of the 2020 Craft category ($); 382MM gallons sold
- Supercenters double their total market share in Craft to 13% (in dollars)
- 12,000 total beer skus compete in the off-premise market; 7000 are Craft
- 84 countries import into the U.S., comprising 30% of retail sales
- Total retail off-premise beer sales remain flat at 2014 levels ($51.4 billion)

Managing Effectively Through Increasing Industry Complexity

Our Retail Industry Model is meant to assist beer industry executives in making informed decisions to increase profitability and market knowledge. The model allows management to more effectively assess their company's strategy within the context of internal operations and marketplace dynamics.

About EFFIS Consulting

EFFIS Consulting has been consistently engaged at the intersection of strategy consulting and analytics. A boutique firm, our experienced team brings a strong combination of corporate and practical experience, as well as extensive intellectual capital.

As needed, we build custom models for our customers based on multiple financial or operational sources, including in-house data or market intelligence data that they may have purchased. We typically team up with our customers at the board or key executive level in a workshop format to gain real-time strategic insight over enterprise or market data.

Contact and Model Information

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For further information on the model visit: www.effis.com/usbeermodel

